

## The Madison Square(MSG)

**\$297.50** (As of 01/08/20)

Price Target (6-12 Months): **\$312.00**

Long Term: 6-12 Months

**Zacks Recommendation:**

**Neutral**

(Since: 01/07/20)

Prior Recommendation: Underperform

Short Term: 1-3 Months

**Zacks Rank:** (1-5)

**3-Hold**

Zacks Style Scores:

VGM:F

Value: F

Growth: F

Momentum: F

### Summary

Shares of Madison Square Garden have outperformed the industry in the past year. The impressive performance can primarily be attributed to strong brand presence and solid operational efficiency. Moreover, the company is consistently benefiting from its ongoing efforts to reinstate growth through multi-night and multi-marketing agents. Moreover, it has been constantly undertaking partnerships and acquisitions. However, intense competition in the entertainment business along with high expenses is a concern. Also, cyclical nature of the entertainment industry and the worsening of global economic conditions might dent revenues and profits. Notably, earnings estimates for the current year have been revised downward by 33% in the past 30 days, depicting analysts concern regarding the performance of the stock.

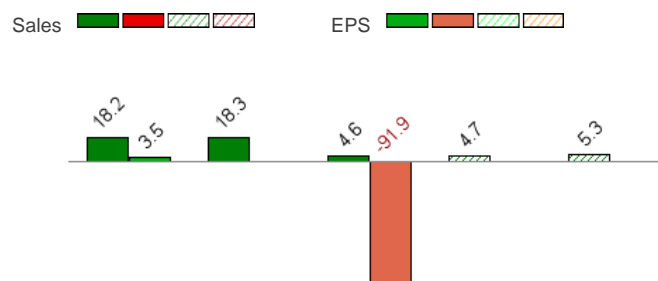
### Price, Consensus & Surprise



### Data Overview

52 Week High-Low	\$315.95 - \$247.58
20 Day Average Volume (sh)	109,797
Market Cap	\$7.1 B
YTD Price Change	1.1%
Beta	0.57
Dividend / Div Yld	\$0.00 / 0.0%
Industry	<a href="#">Leisure and Recreation Services</a>
Zacks Industry Rank	Bottom 27% (186 out of 254)

### Sales and EPS Growth Rates (Y/Y %)



Last EPS Surprise	-46.7%
Last Sales Surprise	-8.1%
EPS F1 Est- 4 week change	-44.6%
Expected Report Date	02/07/2020
Earnings ESP	2.3%

P/E TTM	NA
P/E F1	NA
PEG F1	NA
P/S TTM	4.3

### Sales Estimates (millions of \$)

	Q1	Q2	Q3	Q4	Annual*
2021	234 E	674 E	572 E	314 E	1,797 E
2020	215 A	644 E	530 E	295 E	1,707 E
2019	218 A	632 A	517 A	264 A	1,631 A

### EPS Estimates

	Q1	Q2	Q3	Q4	Annual*
2021	-\$2.43 E	\$3.28 E	\$1.58 E	-\$2.20 E	\$0.02 E
2020	-\$3.36 A	\$2.67 E	\$0.91 E	-\$1.91 E	-\$1.07 E
2019	-\$1.36 A	\$3.42 A	\$1.48 A	-\$3.08 A	\$0.48 A

\*Quarterly figures may not add up to annual.

The data in the charts and tables, including the Zacks Consensus EPS and Sales estimates, is as of 01/08/2020. The reports text is as of 01/09/2020.

## Overview

The Madison Square Garden Company (MSG) is a Delaware-based provider of live experiences, including celebrated venues, legendary sports teams, exclusive entertainment productions and other entertainment assets. The company was incorporated on Mar 4, 2015, as an indirect, wholly-owned subsidiary of MSG Networks Inc. The company presents a broad array of premier events in its diverse collection of venues.

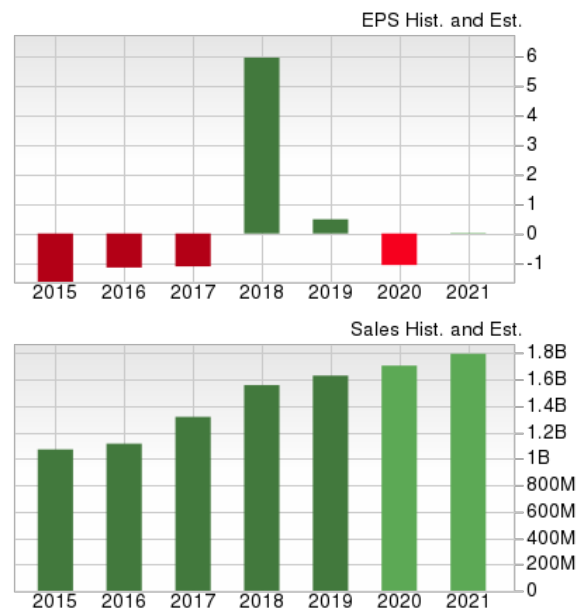
Other MSG properties include legendary sports franchises: the New York Knicks (NBA) and the New York Rangers (NHL); two development league teams —the Westchester Knicks (NBAGL) and the Hartford Wolf Pack (AHL); and esports teams and Knicks Gaming, MSG's NBA 2K League franchise. In addition, the company features the popular original production, the Christmas Spectacular, starring the Radio City Rockettes. It organizes New England's preeminent Boston Calling Music Festival as well.

Madison Square Garden also owns the TAO Group, which is a world-class hospitality group, with globally-recognized entertainment dining and nightlife brands.

The company manages business via two segments, namely MSG Sports and MSG Entertainment.

*The MSG Sports segment (25% of consolidated revenues in fiscal 2019)* owns and operates professional sports franchises, including the New York Knicks and the New York Rangers. MSG Sports also owns and operates the New York Liberty of the Women's National Basketball Association and Hartford Wolf Pack of the American Hockey League. The segment primarily generates revenues from ticket sale, suite rental fees at The Garden, and distributions from NHL and NBA league. The segment also derives substantial revenues from the local media rights associated with MSG Networks.

*The MSG Entertainment segment (74%)* is the leading provider of live entertainment. In the company's pre-eminent venues like The Garden, The Theater at Madison Square Garden, Radio City Music Hall, the Beacon Theatre, the Forum, and The Chicago Theatre, this part of the business hosts live entertainment events including concerts, family shows, performing arts events and special events. The primary source of revenues for this segment is ticket sales to audiences for live events.



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## Reasons To Buy:

▲ **Strong Brand Presence:** In addition to maintaining iconic venues in top live entertainment markets, Madison Square Garden owns legendary sports franchises that drive its strong brand power. Furthermore, the company has a strong industry presence, which allows it to explore opportunities for new content and brand extensions. It is expected to tread on the growth trajectory, given its first-class operations coupled with innovations and the ability to deliver top-class experiences to guests.

A strong brand presence, efficient innovations in operations and continual expansion through acquisitions and partnerships bode well.

▲ **Operational Efficiency:** Madison Square Garden continues to benefit from ongoing efforts to reinstate growth through multi-night and multi-marketing agents. In September, the company announced expanded multi-year agreement with the Hospital for Special Surgery, which provides long-term partner with significant brand exposure across the Knicks, Westchester Knicks, and NBA 2K18 Knicks Gaming. The company's iconic venues hosted a diverse range of concerts, marquee events and family shows with immaculate operational expertise. It also held the 60th Annual Grammy Awards that further proved how skillful its operational team is. Madison square Garden is relentlessly trying to add value to core operational team by utilizing its proficiency in areas like marketing partnerships and media rights.

In fiscal 2018, Madison Square Garden witnessed double-digit sponsorship and signage growth. The company renewed partnership agreements with Delta Air Lines, Charter Communications and Kia, and added Squarespace as a new partner, who would sponsor the first ever Knicks Jersey. During the third quarter of fiscal 2019, the company completed marketing partnership agreements with Counter Logic Gaming, including one with Newegg. As part of the partnership, Newegg is to present as the official online technology retail partner for CLG Sport '19, with brand integration across a variety of CLG's assets. In the entertainment business, the company partnered with Hulu and Montefiore Health System.

Last year, Madison Square Garden also announced a multifaceted partnership with PepsiCo, which has been serving as the company's official signature food and beverage partner. Further, PepsiCo is an official partner of the Knicks, Rangers and Counter Logic Gaming as well as the Christmas Spectacular Starring the Radio City Rockettes. The company also announced that Tedeschi Trucks Band will play on multiple shows annually through 2022 at both Beacon Theatre and the Chicago Theatre. Meanwhile, with innovative venues like MSG Sphere, the company aims to transform the live entertainment industry by offering cutting-edge video, acoustics and connectivity technologies to audiences and storytellers for the purpose of interaction.

▲ **Continual Asset Building Through Partnerships and Acquisitions:** In order to strengthen footprint and explore additional opportunities, Madison Square Garden has been consistently relying on partnerships and acquisitions. Earlier, management announced that it will acquire a parcel of land in London to build another "Sphere", with the intent of transforming music/event scenario. This new venue is expected to debut in 2021, following a Las Vegas venue in 2020. The company is confident about the success of its business in Las Vegas as the region is one of the world's top entertainment spot, attracting more than 40 million visitors every year.

The company procured a majority stake at the entertainment, dining, and nightlife company TAO that has enabled to grow its portfolio from 19 to 26 venues. Venue expansion remains the primary strategy for Madison Square Garden as it allows marketing partners to showcase their brands in powerful and innovative ways, by leveraging the venue's unique platform. Notably, in 2014, the company acquired 50% interest in Tribeca Enterprises, owner of the acclaimed Tribeca Film Festival. In 2016, Madison Square Garden acquired an approximately 12% common equity stake in Townsquare Media, a leading media, entertainment and digital marketing solutions company.

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## Reasons To Sell:

▼ **Lower-Than-Expected Q1 Results:** Madison Square Garden reported first-quarter fiscal 2020 results, wherein both earnings and revenues lagged the Zacks Consensus Estimate. With this, the bottom line fell short of the Zacks Consensus Estimate for the second consecutive quarter, whereas the top line lagged the same for the third straight quarter. The company incurred a loss of \$3.36 per share, wider than the Zacks Consensus Estimate of a loss of \$2.29. In the prior-year quarter, Madison Square Garden had incurred a loss of \$1.36 per share. Over the past 30 days, estimates for current year have witnessed sharp downward revisions of 33%.

Intense competition in the Entertainment business and tricky nature of consumer discretionary spending are potential headwinds.

▼ **Entertainment Business a Concern:** Madison Square Garden operates in a market where numerous sports and entertainment options are prevalent. This remains a potential threat to the company's ticket sale prices and profits. Revenues from the Entertainment segment witnessed a decline of 2% in first-quarter fiscal 2020 primarily due to event-related revenues at the company's venues. The winding down of Obscura Digital's third-party business also impacted the segment's revenues. The company is trying to spin off its entertainment business.

▼ **Dependence on Discretionary Spending:** Cyclical nature of the entertainment industry and the worsening of global economic conditions might, in turn, dent the company's revenues, and profits. Consumer demand for services is closely linked to performance of the general economy, and is sensitive to business and personal discretionary spending levels. Decline in consumer demand due to adverse general economic conditions, poor travel patterns, lower consumer confidence and high unemployment can lower revenues and profitability of Madison Square.

▼ **Valuation Looks Stretched:** As Madison Square Garden significantly outperformed the industry in a year's time, its valuation looks a bit stretched compared with its own range as well as the industry average. The company currently has a trailing 12-month EV/EBITDA ratio of 79.54. The stock is relatively overvalued right now compared with its peers as the industry average EV/EBTDA multiple currently stands at 8.5x.

▼ **High Expenses Concern:** Madison Square Garden has been bearing the brunt of high expenses for quite some time now. While the company's operational efforts and partnerships are likely to add to its top-line growth, expenses related to such initiatives have been hurting overall profits. In first-quarter fiscal 2020, Madison Square's SG&A expenses increased 23.7% on a year-over-year basis. Also, direct operating expenses surged 6.9% from the year-ago level.

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## Last Earnings Report

### Madison Square Garden's Q1 Loss Wider Than Expected

The Madison Square Garden Company reported first-quarter fiscal 2020 results, with earnings and revenues lagging the Zacks Consensus Estimate. The bottom line fell short of the Zacks Consensus Estimate for the second consecutive quarter, whereas the top line lagged the same for the third straight quarter.

In the quarter under review, the company incurred a loss of \$3.36 per share, wider than the Zacks Consensus Estimate of a loss of \$2.29. In the prior-year quarter, Madison Square Garden had incurred a loss of \$1.36 per share. Net revenues totaled \$214.8 million, which missed the consensus mark of \$234 million and dipped 1.5% year over year.

Quarter Ending **09/2019**

Report Date	Nov 08, 2019
Sales Surprise	-8.06%
EPS Surprise	-46.72%
Quarterly EPS	-3.36
Annual EPS (TTM)	-1.54

### Segmental Performance

Madison Square Garden operates under two segments — MSG Entertainment and MSG Sports.

Revenues from the Entertainment segment totaled \$159 million, down 2% year over year. The downside was caused by decline in event-related revenues at the company's venues. The winding down of Obscura Digital's third-party business impacted the segment's revenues.

The segment's adjusted operating income came in at \$6.2 million compared with operating income of \$9 million in the prior-year quarter. The metric fell primarily due to a sharp decline in revenues.

Revenues in the Sports segment inched up 1% to \$56 million, courtesy of robust revenues from other live sporting events. However, the gain was partially overshadowed by decline in ticket-related revenues.

The segment's adjusted operating loss came in at \$13.7 million compared with operating income of \$0.6 million in the prior-year quarter. The loss was caused by higher direct operating expenses and selling, general and administrative expenses.

### Operating Income

In the quarter under review, Madison Square Garden incurred adjusted operating loss of \$41.1 million compared with operating loss of \$9.9 million in the year-ago quarter.

### Balance Sheet

Cash and cash equivalents totaled \$952.2 million as of Sep 30, 2019 compared with \$1.1 billion as of Jun 30, 2019. The company ended the fiscal first quarter with long-term debt of nearly \$47.4 million compared with \$48.6 million at the end of Jun 30, 2019.

## Valuation

Madison Square Garden's shares are up 9.9% over the trailing 12-month period. Over the past year, the Zacks sub-industry have gained 6.8% and the sector by 21.2%.

The S&P 500 index is up 24.8% in the past year.

The stock is currently trading at 4.03x forward 12-month Price to Sales, which compares to 1.59x for the Zacks sub-industry, 2.37x for the Zacks sector and 3.47x for the S&P 500 index.

Over the past three years, the stock has traded as high as 4.99x and as low as 2.95x, with a 3-year median of 3.52x. Our Neutral recommendation indicates that the stock will perform in-line with the market. Our \$312 price target reflects 4.22x forward 12-month Price to Sales value.

The table below shows summary valuation data for MSG.

Valuation Multiples - MSG					
		Stock	Sub-Industry	Sector	S&P 500
P/S F 12M	Current	4.03	1.59	2.37	3.47
	5-Year High	4.99	2.18	3.19	3.47
	5-Year Low	2.95	1.33	1.81	2.54
	5-Year Median	3.52	1.68	2.54	3
P/CF	Current	41.29	8.01	14.16	22.69
	5-Year High	50.83	10.88	16.42	22.69
	5-Year Low	20.22	6.65	9.76	11.78
	5-Year Median	33.65	8.45	13.57	16.22
P/B TTM	Current	2.78	1.35	3.56	4.42
	5-Year High	3.03	1.71	5.04	4.45
	5-Year Low	1.26	0.97	3.13	2.85
	5-Year Median	2.09	1.38	4.29	3.6

As of 01/08/2020

## Industry Analysis Zacks Industry Rank: Bottom 27% (186 out of 254)



## Top Peers

Bluegreen Vacations Corporation (BXG)	Neutral
Cedar Fair, L.P. (FUN)	Neutral
Hudson Ltd. (HUD)	Neutral
Live Nation Entertainment, Inc. (LYV)	Neutral
Manchester United Ltd. (MANU)	Neutral
Vail Resorts, Inc. (MTN)	Neutral
SeaWorld Entertainment, Inc. (SEAS)	Neutral
Six Flags Entertainment Corporation New (SIX)	Neutral

Industry Comparison Industry: Leisure And Recreation Services				Industry Peers		
	MSG Neutral	X Industry	S&P 500	FUN Neutral	SEAS Neutral	SIX Neutral
<b>VGM Score</b>	<b>F</b>	-	-	<b>A</b>	<b>A</b>	<b>A</b>
Market Cap	7.07 B	1.03 B	23.84 B	3.13 B	2.69 B	3.68 B
# of Analysts	4	4	13	6	8	7
Dividend Yield	0.00%	0.00%	1.79%	6.77%	0.00%	7.62%
<b>Value Score</b>	<b>F</b>	-	-	<b>B</b>	<b>B</b>	<b>B</b>
Cash/Price	0.15	0.10	0.04	0.08	0.02	0.06
EV/EBITDA	45.17	10.15	13.88	12.50	13.75	9.26
PEG Ratio	NA	1.51	2.02	2.27	2.63	2.38
Price/Book (P/B)	2.78	2.01	3.33	73.24	11.60	NA
Price/Cash Flow (P/CF)	54.11	9.16	13.76	9.54	11.86	9.29
P/E (F1)	NA	18.00	18.76	15.86	18.42	15.71
Price/Sales (P/S)	4.34	1.30	2.63	2.13	1.95	2.46
Earnings Yield	-0.36%	5.38%	5.32%	6.30%	5.44%	6.36%
Debt/Equity	0.10	0.77	0.72	50.48	6.95	-3.86
Cash Flow (\$/share)	5.50	1.90	6.94	5.79	2.88	4.69
<b>Growth Score</b>	<b>F</b>	-	-	<b>B</b>	<b>A</b>	<b>C</b>
Hist. EPS Growth (3-5 yrs)	NA%	15.63%	10.56%	6.22%	13.10%	37.57%
Proj. EPS Growth (F1/F0)	-321.88%	10.99%	7.46%	10.99%	28.26%	7.37%
Curr. Cash Flow Growth	-50.54%	10.60%	14.83%	-14.81%	-44.47%	29.92%
Hist. Cash Flow Growth (3-5 yrs)	48.32%	10.36%	9.00%	2.08%	-1.90%	0.87%
Current Ratio	1.55	0.93	1.23	1.17	0.44	1.24
Debt/Capital	10.97%	56.37%	42.99%	98.06%	87.43%	NA
Net Margin	-2.23%	5.93%	11.08%	10.02%	7.43%	18.02%
Return on Equity	-1.38%	7.28%	17.16%	-528.93%	52.78%	-38.61%
Sales/Assets	0.42	0.53	0.55	0.63	0.61	0.53
Proj. Sales Growth (F1/F0)	4.65%	4.38%	4.16%	4.37%	3.31%	3.19%
<b>Momentum Score</b>	<b>F</b>	-	-	<b>B</b>	<b>C</b>	<b>A</b>
Daily Price Chg	-0.45%	0.00%	0.39%	-0.56%	-0.03%	-1.94%
1 Week Price Chg	0.99%	0.00%	-0.30%	0.54%	-0.50%	-0.90%
4 Week Price Chg	8.61%	3.90%	2.38%	1.30%	13.00%	-3.50%
12 Week Price Chg	12.02%	5.85%	6.40%	-5.33%	24.58%	-14.30%
52 Week Price Chg	9.89%	-6.86%	22.97%	4.26%	41.27%	-27.59%
20 Day Average Volume	109,797	115,818	1,610,101	312,586	942,960	960,118
(F1) EPS Est 1 week change	0.00%	0.00%	0.00%	0.00%	0.13%	-0.16%
(F1) EPS Est 4 week change	-44.57%	0.00%	0.00%	0.00%	0.13%	-0.56%
(F1) EPS Est 12 week change	-294.82%	-5.67%	-0.50%	-3.28%	2.98%	-7.83%
(Q1) EPS Est Mthly Chg	-3.86%	0.00%	0.00%	0.00%	0.00%	0.37%

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## Zacks Stock Rating System

We offer two rating systems that take into account investors' holding horizons: Zacks Rank and Zacks Recommendation. Each provides valuable insights into the future profitability of the stock and can be used separately or in combination with each other depending on your investment style.

### Zacks Recommendation

The Zacks Recommendation aims to predict performance over the next 6 to 12 months. The foundation for the quantitatively determined Zacks Recommendation is trends in the company's estimate revisions and earnings outlook. The Zacks Recommendation is broken down into 3 Levels; Outperform, Neutral and Underperform. Unlike many Wall Street firms, we have an excellent balance between the number of Outperform and Neutral recommendations. Our team of 70 analysts are fully versed in the benefits of earnings estimate revisions and how that is harnessed through the Zacks quantitative rating system. But we have given our analysts the ability to override the Zacks Recommendation for the 1200 stocks that they follow. The reason for the analyst over-rides is that there are often factors such as valuation, industry conditions and management effectiveness that a trained investment professional can spot better than a quantitative model.

### Zacks Rank

The Zacks Rank is our short-term rating system that is most effective over the one- to three-month holding horizon. The underlying driver for the quantitatively-determined Zacks Rank is the same as the Zacks Recommendation, and reflects trends in earnings estimate revisions.

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### Zacks Style Scores

The Zacks Style Score is as a complementary indicator to the Zacks rating system, giving investors a way to focus on the highest rated stocks that best fit their own stock picking preferences.

Academic research has proven that stocks with the best Value, Growth and Momentum characteristics outperform the market. The Zacks Style Scores rate stocks on each of these individual styles and assigns a rating of A, B, C, D and F. We also produce the VGM Score (V for Value, G for Growth and M for Momentum), which combines the weighted average of the individual Style Scores into one score. This is perfectly suited for those who want their stocks to have the best scores across the board.

Value Score	F
Growth Score	F
Momentum Score	F
VGM Score	F

As an investor, you want to buy stocks with the highest probability of success. That means buying stocks with a Zacks Recommendation of Outperform, which also has a Style Score of an A or a B.

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